PREDEX CORPORATION ERRORS OF FORECAST

Predex produces monthly forecasts of the average quarterly exchange rates for thirteen currencies for the upcoming four quarters. For six countries - Canada, Germany, Italy, the United Kingdom, Japan, and France - Predex publishes both the model based prediction and a "staff judgment" prediction, if that judgment differs from the model-generated number.

On the whole, Predex did a rather poor job of predicting exchange rate movements in 1974-IV and 1975-I. Predex forecasts in the fall of 1974 indicated a substantial rise in the value of the dollar against major foreign currencies in 74-IV and 75-I when in fact the reverse occurred. In January 1975, Predex again erroneously predicted a rise in the value of the dollar for 75-I. The attached tables show the magnitude of the errors of the forecast for three sets of predictions.

SEPTEMBER FORECASTS FOR 1974-IV

	Forecast*	Actual	% Errors of Model Based Number	% Errors of "Best Judgment" Number
Canada	101.0 - 102.0	101.432	.00	.01
Germany	36.5 - 37.8	39.741	-4.09	-7.38
Italy	.140 - .150	.1506	.00	-7.04
United Kingdom	218	232.917	-6.40	-6.40
Japan	.317	.3337	-5.00	-5.00
France	16.0 - 18.0	21.541	-25.72	-16.44
		Average Absolute Percentage Error	6.87	7.04

SEPTEMBER FORECASTS FOR 1975-I

	Forecast*	Actual	% Errors of Model Based Number	% Error of "Best Judgment" Number
Canada	101.5 - 103.0	99.72	1.78	3.28
Germany	36.0 - 37.1	42.79	-13.30	-15.87
Italy	.135 - .149	.1568	-4.97	-13.90
United Kingdom	208	238.96	-12.96	-12.96
Japan	.304	.341	-10.85	-10.85
France	15.0 - 17.0	23.37	-35.81	-27.26
		Average Absolute Percentage Error	13.28	14.02

DECEMBER FORECASTS FOR 1975-I

	Forecast*		Actual	% Errors of Model Based Number	% Errors of "Best Judgment" Number
Canada	101.1 -	103.0	99.72	1.38	3.29
Germany	37.5 -	37.8	42.79	-11.66	-12.36
Italy	.135 -	.144	.1568	-8.16	-13.90
United Kingdom	220.0 -	224.4	238.96	-6.09	-7.93
Japan	.300 -	.306	.341	-10.26	-12.02
France	19.2 -	18.5	23.37	-17.84	-20.84
		Average Absolute Percentage Error		-9.23	-11.72

TURNING POINTS

CANADA: The Predex model and the Staff Judgments in September and November indicated a propensity for the Canadian dollar to remain stable in 1974-II and to rise in 75-I vis-a-vis the US dollar. The Canadian currency actually fell slightly in 1974-IV and fell somewhat more in 1975-I. The January forecast was for a stable Canadian dollar.

GERMANY: In the September forecast, Predex indicated a slight weakening in the German mark in 1974-IV and 1975-I. The November forecast, which presumably was made with at least some October data in hand, still predicted a lower quarterly average rate for 1974-IV than 1974-III. In October, the mark began a sharp rise vis-a-vis the dollar. In the January forecasts, Predex does indicate a rise in the mark for 1975-I, but this rise was underestimated by over 10%.

ITALY: The Predex forecasts in September and November indicate a weakening lira in 74-IV and 75-I. The lira did decline in 74-IV, but it rose in 75-I. The January Predex forecast was for a weakening Italian lira.

UNITED KINGDOM: The Predex forecasts in September and November show a very substantial weakening of the pound in 74-IV and 75-I. The pound did weaken in 74-IV but it rose in 75-I. The January forecast also indicated a weakening pound in 75-I.

JAPAN: The Predex forecasts in September and November show a substantial weakening of the yen in 74-IV and 75-I. The yen did weaken in 74-IV, although only slightly, but it rose in 75-I. The January forecast indicated a weakening yen in 75-I.

FRANCE: The Predex forecasts in September and November indicated a weakening French franc in 74-IV and 75-I. The franc actually moved up considerably in both quarters. The January forecasts indicated a weakening of the franc in 75-I.